



CITY OF SAINT PAUL

**BULK FUEL RATE STUDY AND
SUMMARY OF SCENARIO'S**





AGENDA

INTRODUCTION

RATE STUDY RESULTS

- EXECUTIVE SUMMARY
- SCENARIO'S 1 THROUGH 4 REVIEW

FINDINGS AND
RECOMMENDATIONS

QUESTIONS AND ANSWERS





INTRODUCTION-YOUR CONSULTANT

- ❑ 65-year Alaska resident
- ❑ Over 35-years of professional work experience in setting rates for some of the largest and smallest utilities in Alaska:
 - Bulk fuel utilities
 - Water and wastewater utilities
 - Solid waste utilities
 - Airport operations
 - Port operations
 - Electric utilities
 - Gas utilities
 - Telecommunication companies
- ❑ Considerable experience in developing cost allocation studies for local city governments to allocate central services cost to departments within the city.
- ❑ Filed and supported rate and other cost studies with state public utility commissions or local city councils that determine if the cost studies produce just and reasonable rates.
- ❑ Hobbies include flying (private pilot) and fishing any where I can.



EXECUTIVE SUMMARY

- ❑ Rate Study developed for the city's Bulk Fuel Utility ("BFU") using a 5-year forward looking revenue requirement approach.
 - Determines if the BFU is operating with a surplus or deficiency and percent change in rates, upwards or downwards applied on an across-the-board basis, to achieve the revenue requirement.
 - ❑ Developed four rate study scenarios for the BFU to assess their financial health:
 - Scenario 1: financial health if rate assumption is a "Do Nothing approach but Decrease Throughput Rate 10%".
 - Scenario 2: financial health if rate assumption is a "Do Nothing approach but maintain Throughput Rates as is".
 - Scenario 3: financial health if rates adjusted to only achieve revenue requirements
 - Scenario 4: financial health if "Best Practices" Approach
 - ❑ Revenue requirement calculation includes depreciation but no return requirement on rate base.
 - ❑ Recommend periodic review of revenue requirement to assess if rate recommendations continue to provide desired results.
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EXECUTIVE SUMMARY (CONTINUED)

- ❑ What are the elements needed for a healthy utility at either existing or proposed rates:
 1. Rates should achieve the utility's revenue requirement.
 2. Rates should achieve an operating reserve equivalent to a minimum of 30 to maximum of 90 days cash operating expenses and a capital reserve equal to 2% - 4% of plant in service balance.
 3. Rates should achieve a reserve to cover debt service requirements (typically current year payment of bond principal and interest) including bond coverage ratio as set forth in bond covenants (usually a 1.25 ratio).

- ❑ Results of each scenario:
 - Scenario's 1 and 2 do not meet any of the above three elements for a healthy utility & may even jeopardize unrestricted fund balance for not only the BFU but for the entire city. City may simply be out of cash.
 - Scenario 3 meets two of the above elements for a healthy utility (elements 1 and 3 but not 2 shown above).
 - Scenario 4 meets all three of the elements above to support a healthy utility.

BULK FUEL UTILITY REVENUE NEEDS ASSESSMENT – “SCENARIO 1”

Bulk Fuel Fund	FYE	2025	2026	2027	2028	2029	2030
OPERATING RESERVES							
Beginning Balance [a]	\$ (3,454,684)	\$ (1,763,710)	\$ (2,148,491)	\$ (2,799,847)	\$ (3,719,791)	\$ (5,006,780)	
plus: Net Cash Flow after Rate Increase	(122,891)	(384,780)	(656,256)	(938,741)	(1,286,988)	(1,625,861)	
Plus: Transfer of Surplus from Bond Reserve	863,865	-	4,901	18,796	-	-	
less: Transfer of Surplus to Capital Fund	-	-	-	-	-	-	
Ending Balance	\$ (2,713,710)	\$ (2,148,491)	\$ (2,799,847)	\$ (3,719,791)	\$ (5,006,780)	\$ (6,632,641)	
<i>Minimum Target Balance</i>	<i>290,572</i>	<i>305,872</i>	<i>321,981</i>	<i>338,943</i>	<i>356,803</i>	<i>375,608</i>	
<i>Maximum Funds to be Kept as Operating Reserves</i>	<i>435,859</i>	<i>458,808</i>	<i>482,972</i>	<i>508,415</i>	<i>535,204</i>	<i>563,412</i>	
<i>Info: No of Days of Cash Operating Expenses</i>	<i>(280)</i>	<i>(211)</i>	<i>(261)</i>	<i>(329)</i>	<i>(421)</i>	<i>(530)</i>	
CAPITAL RESERVES							
Beginning Balance [b]	\$ -	\$ 40,047	\$ 80,495	\$ -	\$ -	\$ 20,301	
plus: Rate Funded System Reinvestment	40,047	40,047	47,360	57,227	109,274	111,053	
plus: Grants / Developer Donations / Other Outside Sources	-	365,650	291,748	2,192,573	-	-	
plus: Net Debt Proceeds Available for Projects	-	-	72,911	352,546	-	-	
plus: Interest Earnings	-	400	805	-	-	203	
plus: Transfer of Surplus from Operating Fund	-	-	-	-	-	-	
plus: Direct Rate Funding	-	-	-	-	-	-	
less: Capital Expenditures	-	(365,650)	(493,319)	(2,602,346)	(88,973)	(91,642)	
Ending Balance	\$ 40,047	\$ 80,495	\$ -	\$ -	\$ 20,301	\$ 39,915	
<i>Minimum Target Balance</i>	<i>\$ 269,719</i>	<i>\$ 284,345</i>	<i>\$ 304,078</i>	<i>\$ 408,172</i>	<i>\$ 411,731</i>	<i>\$ 415,397</i>	
DEBT RESERVE							
Beginning Balance [c]	\$ 950,000	\$ 86,135	\$ 86,135	\$ 86,135	\$ 91,036	\$ 91,036	
plus: Reserve Funding from New Debt	-	-	4,901	23,697	-	-	
Transfer Suplus Debt Reserve to Operating Reserve	(863,865)	-	(4,901)	(18,796)	-	-	
Ending Balance	\$ 86,135	\$ 86,135	\$ 86,135	\$ 91,036	\$ 91,036	\$ 91,036	
<i>Minimum Target Balance</i>	<i>86,135</i>	<i>86,135</i>	<i>86,135</i>	<i>91,036</i>	<i>114,732</i>	<i>173,341</i>	

BULK FUEL UTILITY REVENUE NEEDS ASSESSMENT – “SCENARIO 2”

Bulk Fuel Fund	FYE	2025	2026	2027	2028	2029	2030
OPERATING RESERVES							
Beginning Balance [a]	\$ (3,454,684)	\$ (1,763,710)	\$ (2,072,731)	\$ (2,580,143)	\$ (3,294,779)	\$ (4,321,230)	\$ (4,321,230)
plus: Net Cash Flow after Rate Increase	(122,891)	(309,021)	(512,313)	(733,432)	(1,026,451)	(1,315,617)	(1,315,617)
Plus: Transfer of Surplus from Bond Reserve	863,865	-	4,901	18,796	-	-	-
less: Transfer of Surplus to Capital Fund	-	-	-	-	-	-	-
Ending Balance	\$ (2,713,710)	\$ (2,072,731)	\$ (2,580,143)	\$ (3,294,779)	\$ (4,321,230)	\$ (5,636,848)	\$ (5,636,848)
<i>Minimum Target Balance</i>	290,572	305,872	321,981	338,943	356,803	375,608	375,608
<i>Maximum Funds to be Kept as Operating Reserves</i>	435,859	458,808	482,972	508,415	535,204	563,412	563,412
<i>Info: No of Days of Cash Operating Expenses</i>	(280)	(203)	(240)	(292)	(363)	(450)	(450)
CAPITAL RESERVES							
Beginning Balance [b]	\$ -	\$ 40,047	\$ 80,495	\$ -	\$ -	\$ 20,301	\$ 20,301
plus: Rate Funded System Reinvestment	40,047	40,047	47,360	57,227	109,274	111,053	111,053
plus: Grants / Developer Donations / Other Outside Sources	-	365,650	291,748	2,192,573	-	-	-
plus: Net Debt Proceeds Available for Projects	-	-	72,911	352,546	-	-	-
plus: Interest Earnings	-	400	805	-	-	203	203
plus: Transfer of Surplus from Operating Fund	-	-	-	-	-	-	-
plus: Direct Rate Funding	-	-	-	-	-	-	-
less: Capital Expenditures	-	(365,650)	(493,319)	(2,602,346)	(88,973)	(91,642)	(91,642)
Ending Balance	\$ 40,047	\$ 80,495	\$ -	\$ -	\$ 20,301	\$ 39,915	\$ 39,915
<i>Minimum Target Balance</i>	\$ 269,719	\$ 284,345	\$ 304,078	\$ 408,172	\$ 411,731	\$ 415,397	\$ 415,397
DEBT RESERVE							
Beginning Balance [c]	\$ 950,000	\$ 86,135	\$ 86,135	\$ 86,135	\$ 91,036	\$ 91,036	\$ 91,036
plus: Reserve Funding from New Debt	-	-	4,901	23,697	-	-	-
Transfer Surplus Debt Reserve to Operating Reserve	(863,865)	-	(4,901)	(18,796)	-	-	-
Ending Balance	\$ 86,135	\$ 86,135	\$ 86,135	\$ 91,036	\$ 91,036	\$ 91,036	\$ 91,036
<i>Minimum Target Balance</i>	86,135	86,135	86,135	91,036	114,732	173,341	173,341

BULK FUEL UTILITY REVENUE NEEDS ASSESSMENT – “SCENARIO 3”

Bulk Fuel Fund	FYE	2025	2026	2027	2028	2029	2030
OPERATING RESERVES							
Beginning Balance [a]	\$ (3,454,684)	\$ (1,763,710)	\$ (1,763,707)	\$ (1,758,798)	\$ (1,740,019)	\$ (1,740,071)	\$ (1,740,071)
plus: Net Cash Flow after Rate Increase	(122,891)	3	9	(17)	(52)	(33)	(33)
Plus: Transfer of Surplus from Bond Reserve	863,865	-	4,901	18,796	-	-	-
less: Transfer of Surplus to Capital Fund	-	-	-	-	-	-	-
Ending Balance	\$ (2,713,710)	\$ (1,763,707)	\$ (1,758,798)	\$ (1,740,019)	\$ (1,740,071)	\$ (1,740,105)	\$ (1,740,105)
<i>Minimum Target Balance</i>	290,572	305,872	321,981	338,943	356,803	375,608	375,608
<i>Maximum Funds to be Kept as Operating Reserves</i>	435,859	458,808	482,972	508,415	535,204	563,412	563,412
<i>Info: No of Days of Cash Operating Expenses</i>	(280)	(173)	(164)	(154)	(146)	(139)	(139)
CAPITAL RESERVES							
Beginning Balance [b]	\$ -	\$ 40,047	\$ 80,495	\$ -	\$ -	\$ 20,301	\$ 20,301
plus: Rate Funded System Reinvestment	40,047	40,047	47,360	57,227	109,274	111,053	111,053
plus: Grants / Developer Donations / Other Outside Sources	-	365,650	291,748	2,192,573	-	-	-
plus: Net Debt Proceeds Available for Projects	-	-	72,911	352,546	-	-	-
plus: Interest Earnings	-	400	805	-	-	203	203
plus: Transfer of Surplus from Operating Fund	-	-	-	-	-	-	-
plus: Direct Rate Funding	-	-	-	-	-	-	-
less: Capital Expenditures	-	(365,650)	(493,319)	(2,602,346)	(88,973)	(91,642)	(91,642)
Ending Balance	\$ 40,047	\$ 80,495	\$ -	\$ -	\$ 20,301	\$ 39,915	\$ 39,915
<i>Minimum Target Balance</i>	\$ 269,719	\$ 284,345	\$ 304,078	\$ 408,172	\$ 411,731	\$ 415,397	\$ 415,397
DEBT RESERVE							
Beginning Balance [c]	\$ 950,000	\$ 86,135	\$ 86,135	\$ 86,135	\$ 91,036	\$ 91,036	\$ 91,036
plus: Reserve Funding from New Debt	-	-	4,901	23,697	-	-	-
Transfer Surplus Debt Reserve to Operating Reserve	(863,865)	-	(4,901)	(18,796)	-	-	-
Ending Balance	\$ 86,135	\$ 86,135	\$ 86,135	\$ 91,036	\$ 91,036	\$ 91,036	\$ 91,036
<i>Minimum Target Balance</i>	86,135	86,135	86,135	91,036	114,732	173,341	173,341

BULK FUEL UTILITY REVENUE NEEDS ASSESSMENT – “SCENARIO 4”

Bulk Fuel Fund	FYE	2025	2026	2027	2028	2029	2030
OPERATING RESERVES							
Beginning Balance [a]	\$ (3,454,684)	\$ (1,763,710)	\$ (1,769,692)	\$ (1,549,811)	\$ (972,896)	\$ 70,881	\$ 70,881
plus: Net Cash Flow after Rate Increase	(122,891)	(5,982)	214,980	558,120	1,043,777	897,621	897,621
Plus: Transfer of Surplus from Bond Reserve	863,865	-	4,901	18,796	-	-	-
less: Transfer of Surplus to Capital Fund	-	-	-	-	-	-	(405,090)
Ending Balance	\$ (2,713,710)	\$ (1,769,692)	\$ (1,549,811)	\$ (972,896)	\$ 70,881	\$ 563,412	\$ 563,412
<i>Minimum Target Balance</i>	290,572	305,872	321,981	338,943	356,803	375,608	375,608
<i>Maximum Funds to be Kept as Operating Reserves</i>	435,859	458,808	482,972	508,415	535,204	563,412	563,412
<i>Info: No of Days of Cash Operating Expenses</i>	(280)	(174)	(144)	(86)	6	45	45
CAPITAL RESERVES							
Beginning Balance [b]	\$ -	\$ 40,047	\$ 80,495	\$ -	\$ -	\$ 20,301	\$ 20,301
plus: Rate Funded System Reinvestment	40,047	40,047	47,360	57,227	109,274	111,053	111,053
plus: Grants / Developer Donations / Other Outside Sources	-	365,650	291,748	2,192,573	-	-	-
plus: Net Debt Proceeds Available for Projects	-	-	72,911	352,546	-	-	-
plus: Interest Earnings	-	400	805	-	-	203	203
plus: Transfer of Surplus from Operating Fund	-	-	-	-	-	405,090	405,090
plus: Direct Rate Funding	-	-	-	-	-	-	-
less: Capital Expenditures	-	(365,650)	(493,319)	(2,602,346)	(88,973)	(91,642)	(91,642)
Ending Balance	\$ 40,047	\$ 80,495	\$ -	\$ -	\$ 20,301	\$ 445,005	\$ 445,005
<i>Minimum Target Balance</i>	\$ 269,719	\$ 284,345	\$ 304,078	\$ 408,172	\$ 411,731	\$ 415,397	\$ 415,397
DEBT RESERVE							
Beginning Balance [c]	\$ 950,000	\$ 86,135	\$ 86,135	\$ 86,135	\$ 91,036	\$ 91,036	\$ 91,036
plus: Reserve Funding from New Debt	-	-	4,901	23,697	-	-	-
Transfer Surplus Debt Reserve to Operating Reserve	(863,865)	-	(4,901)	(18,796)	-	-	-
Ending Balance	\$ 86,135	\$ 86,135	\$ 86,135	\$ 91,036	\$ 91,036	\$ 91,036	\$ 91,036
<i>Minimum Target Balance</i>	86,135	86,135	86,135	91,036	114,732	173,341	173,341

FINDINGS AND RECOMMENDATIONS

- ❑ Scenario 1 and 2 should not be considered due to impact to unrestricted fund balance to both BFU and entire city.
- ❑ Scenario 3 provides only a marginal improvement to negative unrestricted fund balance while Scenario 4 meets best practice.
- ❑ Rate shock a real consideration and Scenarios 3 and 4 phases in rate adjustment over five years.
- ❑ May want to give consideration to Cost-of-Service and Rate Design rate studies to adjust rates on other than on a cross-the-board basis.
- ❑ Review your revenue requirement annually by updating your rate study cost models
 - Work product ownership allows you to assess how you are doing on rates going forward.





QUESTIONS AND ANSWERS

